

Current  
Policy No. 297

# U.S. Relations With China

July 16, 1981



United States Department of State  
Bureau of Public Affairs  
Washington, D.C.

U. S. DEPOSITORY DOCUMENT  
AUG 26 1981  
CONNECTICUT COLLEGE LIBRARY  
NEW LONDON, CT 06320

*Following is a statement by John H. Holdridge, Assistant Secretary for East Asian and Pacific Affairs, before the House Foreign Affairs Committee on July 16, 1981.*

I am pleased to have been invited here today to try to answer your questions about U.S. policy toward the People's Republic of China and Taiwan. To begin, let me review our strategic interests in a sound, healthy relationship with China.

- Our security and that of Japan, South Korea, and our ASEAN [Association of South East Asian Nations] friends have been demonstrably enhanced by the growth of close U.S.-China ties. We gain very positive benefits both in the Asian and in the global balance of forces.

- In the Taiwan strait, tensions are at an all-time low.

- China is supportive of our global and regional efforts to strengthen our defense posture and alliance structure against expansionism by the Soviets and their proxies.

- Throughout most of the Third World we no longer compete with the Chinese as rivals. Instead our policies are often complementary.

- In short, the U.S.-China relationship is a major component in our global and regional security policies.

- The number of bilateral agreements with China has grown rapidly in the past 2½ years. Trade—including the provision of most-favored-nation status—textile, civil aviation, and maritime agreements have been signed.

A consular convention has been approved by the Senate Foreign Relations Committee and submitted to the full Senate for action. Joint economic, commerce, and science committees have been formed and meet regularly to coordinate cooperation in their respective fields. China is eligible for Customs Cooperation Council and Eximbank credits as well as OPIC [Overseas Private Investment Corporation] insurance in order to help support U.S. exports to China. An active consultative relationship has taken shape, through which our two countries seek to discuss and, when appropriate, coordinate our remarkably convergent policies over practically the entire spectrum of global and regional issues.

Both sides have welcomed these developments and look forward to further improvement in the relationship. They form the healthy substance necessary for a viable, long-term relationship. Without going into unnecessary detail, the results have been dramatic. In the first quarter of this year, China became our third leading export market in Asia, behind Japan and the Republic of Korea. It is now our third largest agricultural market in the world. Our ships and planes have begun regularly scheduled service to the other's shores, and tourism is expanding, as is educational exchange and cooperation in science and technology. All of this has been accomplished without detracting from our continued nonofficial relationship with the people of Taiwan, whom we are treating with the dignity befitting old friends.

## Reagan Policy Review

The starting point for this Administration's policy toward China can be found in President Reagan's statement of last August 25, that our China relationship is global and strategic and one that we should develop and strengthen in the years ahead. In this context, we undertook an extensive policy review to assess our China relationship on the premise that China is not our adversary but a friendly, developing country with which, without being allied, we share important strategic interests.

- We decided to liberalize further our export controls over dual-use technology sales to China and, perhaps more importantly, to implement the new procedures effectively.
- We are considering possible legislative changes to amend U.S. laws which treat China as a member of the Soviet bloc. We intend to work closely with the Congress on this.
- We concluded that we should revise the regulations on international traffic in arms to permit the licensing of commercial sales to China on a case-by-case basis.

## Export Controls

Our export control policy toward China is designed to strengthen our economic involvement in China's modernization by raising the level of technology that will be routinely approved for sale to China. Our interest in a successfully modernizing China is clear. Only the interests of our adversaries would be served by a weak China that had failed to modernize or a China that, in its frustration, had turned away from moderation and cooperation with the West.

Our export controls for China should reflect its role as a friendly, nonadversary state, clearly differentiating China from the Soviet bloc and minimizing the regulatory burden on U.S. companies. We want to help U.S. companies employ their technology edge fully and gain greater opportunities in the China market. Participating in China's economic development benefits business and strengthens bilateral ties. We want to have China look to us as a trusted supplier. Shackling U.S. business would not only cost us money but cause us to miss a unique opportunity to build a viable relationship with a quarter of the world's population.

## Legislation

Some statutes remain on the books which inhibit the expansion of our relations with China. Some of these laws were enacted to protect against the difficulties arising from interaction between market and nonmarket economies and should be viewed in this context. Nevertheless, a number of these statutes prohibit cooperation with China by the U.S. Government or private industry due to Beijing's earlier association with the Soviet bloc. As Secretary Haig informed the Chinese during his recent trip to Beijing [June 14-17], the Reagan Administration is currently reviewing such legislation and will seek appropriate congressional action to end past discrimination no longer consistent with our present strategic relationship. We will consult with the Congress closely on this subject.

In particular, we are reviewing the Foreign Assistance Act of 1961, the Agricultural Trade Development and Assistance Act (PL 480), the Trade Agreements Extension Act (which prohibits imports of seven categories of furs from China and the Soviet Union), and the Trade Act of 1974.

The restrictions excluding China from development assistance, PL 480, and the export of furs are based primarily on that country's previous relationship with the Soviet Union and are not consistent with the current global situation. Thus, we believe these laws should be amended. Ending these restraints would not entail any specific U.S. obligations but would bring our laws up to date and remove self-imposed restraints that are not shared by our competitors from Europe or Japan. By doing so we would be improving our flexibility. Such steps as sales of PL 480 grains or extensions of development assistance would still be done on a case-by-case basis, if at all. Indeed, we have no current plans to offer such assistance to China and would only consider such a step following review of its economic consequences and appropriate consultations with Congress.

On the other hand, the restrictions on our relationship with China created by the Trade Act of 1974—including those on extension of the generalized system of preferences (GSP), trade agreement requirements, and market disruption—appear to be based primarily on the special concerns arising from the interaction of market and nonmarket economies. We see no reason to change

statutes for China which simply recognize that nonmarket economies operate differently than market economies. This does not mean that we have foreclosed extending GSP to China at an appropriate time, but this would only be done in the context of China's having met the conditions that the law requires of nonmarket economy countries.

## Munitions Control

The steady development of our relations with China over the last several years, as well as our evolving strategic cooperation, make it inappropriate for us to maintain the tight controls on munitions exports to China that we do on such exports to adversaries. A flat prohibition on sales to China, a friendly country, chiefly benefits its opportunistic and aggressive neighbor. This decision is not a decision to sell any specific weapons systems or military technology; it will merely enable Beijing to make requests to purchase from U.S. commercial sources any items on the U.S. munitions list, including weapons. We are by no means committed to approving such requests but only to considering them on a case-by-case basis just as we do for all other friendly nations.

We do not expect this to lead to a sudden or uncontrolled surge of U.S. weapons sales to China. First of all, our own intentions are to move slowly, with appropriate caution and to insure that any weapons are only defensive in character. The Secretary made clear in Beijing that, as far as defensive exports are concerned, we intend to proceed in a gradual and careful way, bearing fully in mind the concerns of and, as appropriate, consulting the Congress, our friends, and allies. Thus, we are not seeking to press arms on China or to move recklessly.

Secondly, we do not believe the Chinese will come forward with massive requests. There are budgetary and foreign exchange constraints and practical difficulties in integrating the most sophisticated technology into their own systems.

Neither we nor the Chinese seek an alliance or an otherwise dramatically expanded security relationship. While they view our willingness to consider military equipment transfers as one measure of our intent to pursue a long-term strategic association with them, they also recognize that we still treat them in

a different fashion from our close allies, particularly in the sharing of sensitive technology. For us, the critically important thing is that we are now willing, for the first time, to deal with China in this area similarly to the way we deal with other friendly nations—in the Middle East, Latin America, Africa, and Asia.

### **Foreign Military Sales**

In your letter inviting me here, you have asked that I address the question of foreign military sales (FMS) for China. In the absence of FMS eligibility, the legislated \$100-million ceiling on commercial exports of defense equipment and services would act as a barrier to large Chinese purchases. The time may come when we will need to address this question, but we are not seeking to make China eligible for FMS cash sales at this time. FMS credits or FMS-guaranteed loans to China are even more premature though we will be prepared to address such issues on their merits, should they arise.

### **Conclusion**

We see these initiatives as natural developments in the positive evolution of our relations with China over the last decade. We intend to implement these

policies in a measured, controlled manner, reflective of third-country interests. We do not see a closer relationship with China as directed against the interests of any other country. Instead, we perceive an historic opportunity to build constructive, friendly relations with a country which is a future world power occupying a strategic position in the Asia-Pacific region and on the Eurasian landmass. Our long-term objective is to enhance greatly the stability of the region by strengthening U.S.-China ties.

As I have indicated, this in no way means that we will ignore Taiwan. We want to continue to improve the substance of our unofficial relations with the people of Taiwan. On his trip, the Secretary told the Chinese that we would continue to manage these relations—as we have since normalization—on the basis of the joint communiqué. As we have consistently stated, our own law establishes a basis for the continuation of these unofficial relations. It is clear that we have certain differences over Taiwan, which, of course, include the sale of defensive arms. We listened to Chinese views, and we made our views known. I think both sides came

away from these meetings with a greater awareness of the other's sensitivities over Taiwan.

Both the Chinese and we realize that for the foreseeable future the political significance of the steps we have taken will far outweigh the immediate military and economic consequences. These are, however, very important gestures aimed at consolidating a long-term relationship in which we will hope to be able to continue to engage our Chinese friends in a positive foreign policy dialogue—particularly in Asia—and to build a network of reinforcing ties which, while leaving us free to pursue internal and foreign policy goals independently, will nonetheless insure cooperative and friendly U.S.-China relations well into the 21st century. ■

---

Published by the United States Department of State • Bureau of Public Affairs • Office of Public Communication • Editorial Division • Washington, D.C. • July 1981 • Editor: Colleen Sussman • This material is in the public domain and may be reproduced without permission; citation of this source would be appreciated.

Bureau of Public Affairs  
United States Department of State  
Washington, D.C. 20520

Postage and Fees Paid  
Department of State  
STA-501



Official Business

Third Class Bulk Rate

If address is incorrect  
please indicate change.  
Do not cover or destroy  
this address label. ➤